

Message Text

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ACTION EUR-12

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FM USMISSION OECD PARIS

TO SECSTATE WASH DC IMMEDIATE 4820

C O N F I D E N T I A L SECTION 01 OF 02 OECD PARIS 30541

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E.O. 11652: GDS

TAGS: ENRG, EFIN

SUBJECT: NOTE FOR BUNDY GROUP

FOR EB-KATZ FROM ENDERS

1. HERE IS THE BRIEF NOTE ON PRODUCER/CONSUMER RELATIONS FOR DISCUSSION WITH WINSTON LORD. REGRET I WAS UNABLE TO SEND IT YESTERDAY.

2. INITIAL CONDITIONS. CLEARLY A GREAT DEAL DEPENDS ON WHETHER OR NOT WE ARE SUCCESSFUL IN OBTAINING A SERIOUS PROJECT INDEPENDENCE AND EQUIVALENT FROM THE EUROPEANS AND JAPANESE. IF WE ARE, THE CARTEL WILL BE UNDER CONSIDERABLE PRESSURE IN THE LATE 70'S AND EARLY 80'S; SOME OF ITS MEMBERS WILL HAVE BALANCE OF PAYMENTS DEFICITS (IRAN, VENEZUELA, ALGERIA, NIGERIA, INDONESIA). THE OVERALL FLOW OF FUNDS WILL HAVE SLOWED DOWN, OR EVEN REVERSED. IF, ON THE OTHER HAND, WE GET A WEAK PROJECT INDEPENDENCE OR STRONG-LOOKING DECISIONS FROM EUROPE AND THE UNITED STATES THAT WE DON'T BELIEVE WILL ACTUALLY BE IMPLEMENTED, THE PROBLEM WE WILL FACE WILL BE TO FIND A WAY TO LIVE INDEFINITELY WITH THE LARGE OPEC SURPLUSES.

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3. EQUILIBRIUM. OUR DEFINITION OF A SUSTAINABLE LONG-

TERM RELATIONSHIP WITH THE OPEC COUNTRIES AND THE STRATEGIES WE FOLLOW TO OBTAIN IT WILL DIFFER IN THE TWO CASES. BUT IN EACH CASE WE WILL WISH TO CONSIDER THREE ELEMENTS:

(A) POLITICAL. OPEC MEMBERS HAVE AN INTEREST IN SEEING THEIR WEALTH RECOGNIZED AS LEGITIMATE, IN GAINING A POSITION IN WORLD ECONOMIC AND FINANCIAL AFFAIRS CORRESPONDING TO THEIR WEALTH. THIS MEANS THEY WILL WANT NOT ONLY TO BE ADMITTED TO EXISTING CLUBS, BUT MAY DEVELOP OVER A TIME THE DESIRE FOR NEW INSTITUTIONS IN WHICH THEY PLAY A FOUNDING PART. THIS LATTER TENDENCY MAY GROW PARTICULARLY IF OPEC MEMBERS COME UNDER PRESSURE FROM STATIC OR FALLING MARKET DEMAND FOR THEIR OIL, AND NEED TO REINFORCE THEIR UNITY WITH A PERMANENT FRAMEWORK OTHER THAN THE OPEC ITSELF. FROM THE CONSUMERS SIDE, THE NEED FELT IN EUROPE AND JAPAN TO COME TO TERMS WITH COUNTRIES THAT WIELD SUCH EXTRAORDINARY POWER OVER THEIR DESTINY WILL NOT DIMINISH SUBSTANTIALLY UNDER ANY SET OF CIRCUMSTANCES OVER THE NEXT DECADE. AS THEY HAVE ALREADY SHOWN, THE EUROPEANS AND JAPANESE WISH TO HAVE SOME WAY IN WHICH TO EXORCISE THEIR FEELING OF INSECURITY. ONLY THE UNITED STATES IS LIKELY TO HAVE SOME FREEDOM TO MANEUVER BETWEEN THE TWO GROUPS. SINCE THE EUROPEANS AND JAPANESE WILL IN THE LONG RUN INSIST ON SOME INSTITUTIONS, IT MAY BE IN OUR INTEREST TO TAKE THE LEAD IN FORMULATING STRUCTURES THAT MINIMIZE THEIR POLITICAL DEPENDENCE UPON THE PRODUCERS. THE MOST IMPORTANT FIELD TO CONSIDER IS CLEARLY THE FINANCIAL, ALTHOUGH SOME WE MIGHT ALSO CONSIDER SOMEWHAT LIKE THE EARLY OEEC, OR LIKE THE ECONOMIC COMMISSION FOR EUROPE, GROUPING THE TWO SETS OF INTERESTS.

(B) FINANCIAL. EVEN IF WE ARE ABLE TO PRODUCE THE NET OPEC SURPLUS TO ZERO, OR REVERSE IT, ENORMOUS FINANCIAL FLOWS WILL CONTINUE. THIS IS BECAUSE SO MUCH OF THE SURPLUS WILL BE CONCENTRATED IN SAUDI ARABIA AND A SMALL NUMBER OF OTHER LOWLY POPULATED COUNTRIES. MUCH OF THOSE FLOWS CAN AND OF COURSE WILL BE CHANNLED THROUGH MONEY MARKETS IN THE CONSUMING COUNTRIES. THERE MAY BE INTEREST, HOWEVER, IN

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CONSIDERING NOW THE POSSIBILITY OF SOME NEW GOVERNMENT-SPONSORED INTERNATIONAL FINANCIAL INSTITUTION WHICH WOULD RECEIVE FUNDS AND INVEST THEM ON A COMMERCIAL BASIS IN PROJECTS THROUGHOUT THE WORLD, INCLUDING BOTH THE CONSUMING COUNTRIES AND THE DEVELOPING COUNTRIES. THIS MECHANISM COULD ALSO BE USED TO CHANNEL THE INTRA-OPEC FLOWS THAT WILL ULTIMATELY BE NECESSARY.

(C) PRICE. AS WE GO INTO THE DIALOGUE WITH THE

PRODUCERS WE WILL NEED TO HAVE A VERY CLEAR IDEA AMONG
THE CONSUMERS OF OUR PRICE OBJECTIVE. AND WE MUST ALSO

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C O N F I D E N T I A L SECTION 02 OF 02 OECD PARIS 30541

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HAVE A MEANS OF HOLDING THE CONSUMERS TO THAT OBJECTIVE,
SO THEY DO NOT FALL APART AND TRY TO MAKE UNWISE DEALS
ON THE LINES OF THE GISCARD PROPOSAL AS SOON AS THE
TALK STARTS. CLEARLY THE THREE MAIN CRITERIA WILL BE:
ALTERNATIVE SOURCES IN THE CONSUMING AREA, THE NEED TO
REDUCE THE OPEC SURPLUS TO THE LOWEST POSSIBLE LEVEL,
AND THE ULTIMATE SIZE OF THE OPEC MARKET. OF THESE,
OBVIOUSLY THE MOST COMPELLING FOR BOTH THE CONSUMERS AND
THE PRODUCERS IS THE MARGINAL COST OF ALTERNATIVE
SOURCES IN THESE CONSUMING COUNTRIES. WE SHOULD MAKE
EVERY EFFORT TO INSTITUTIONALIZE THIS PRICE BY AGREEMENT
AMONG THE CONSUMERS BEFOREHAND, AND BY ESTABLISHMENT OF
VARIABLE LEVIES TO DEFEND IT.

4. LDCS. IT IS CLEARLY CRITICAL TO OBTAIN A STRONG LDC
INPUT INTO THE DIALOGUE FOR TWO REASONS: THE OIL
PRODUCERS MUST ULTIMATELY BE EXPOSED TO PRESSURE FROM
THEM, AND SUSTAINED LDC GROWTH DEPENDS ON THE COOPERA-
TION OF THE PRODUCERS. THE PRODUCERS HAVE MOVED RATHER
FURTHER RATHER FASTER THAN MANY HAD EXPECTED IN SETTING
UP AID PROGRAMS FOR LDCS. BUT THE PROGRAMS ARE HIGHLY
POLITICAL, AND LOOSELY ADMINISTERED, AND THEIR ACTUAL

PAY-OUT IS STILL IN DOUBT. THE LDC PROBLEM WOULD SEEM TO ARGUE ALSO FOR WHAT WOULD BE IN EFFECT A NEW WORLD BANK, THIS ONE SPONSORED NOT BY WASHINGTON BUT BY THE OPEC COUNTRIES, WITH LOANS ON A LARGELY HARD BASIS. CONFIDENTIAL

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PERHAPS THE BEST WAY TO GET CONCESSIONAL ASSISTANCE FROM THE OPEC MEMBERS TO THE LDCS IS TO CREATE A CHANNEL IN WHICH LARGE GOVERNMENT-TO-GOVERNMENT LOANS CAN BE MADE AT MARKET RATES OF INTEREST, BUT WHICH ARE THEN RE-SCHEDULED.

5. TACTICS. WE SHALL HAVE TO MAKE A JUDGMENT RELATIVELY EARLY ON WHETHER OUR MAIN INTEREST IS IN MAXIMIZING THE DIFFERENCES AMONG THE PRODUCERS, TRYING TO SET UP A LONG-TERM SITUATION IN WHICH THE MAIN VEHICLE FOR OUR RELATIONS IS BILATERAL, OR WHETHER OUR INTEREST IS IN DEALING WITH THEM AS A GROUP, RECOGNIZING THAT THIS MAY MAKE THEM LESS MOBILE BUT ALSO LESS TRACTABLE. BROADLY SPEAKING, THE EMPHASIS ON BILATERAL IS LIKELY TO SERVE US BEST IF WE HAVE CREATED STRONG INITIAL CONDITIONS AND HAVE A REASONABLE CHANCE OF BREAKING THE CARTEL. IF NOT, THE BLOC APPROACH MAY BE DESIRABLE.

IN EITHER CASE IT WOULD PROBABLY BE WRONG AT ANY EARLY STAGE TO ATTEMPT A DEAL ON PRICE. NEITHER SIDE WILL BE READY. HOWEVER, PRICE POSITIONS HAVE TO BE PUT FORWARD AT THE VERY START OF THE DIALOGUE IF WE ARE TO AVOID A SENSE OF UNREALITY AND OF FUTILITY. THE NEXT POINT OF CONCENTRATION SHOULD THEN BE THE NEW FINANCIAL MECHANISMS, AND HERE WE MIGHT BE WELL SERVED TO HAVE A PROPOSAL.

6. COMMENT: REQUEST YOU EXPAND, ALTER THIS NOTE, WHICH IS OBVIOUSLY INTENDED TO BE NO MORE THAN EVOCATIVE, WITH LORD. WE CAN DISCUSS ON FRIDAY, THEN TELEX IT TO THE MEMBERS OF THE BUNDY GROUP. TURNER

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